

Message Text

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INFO AMEMBASSY BANGKOK

AMEMBASSY MANILA

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C O N F I D E N T I A L STATE 006119

E.O. 11652: GDS

TAGS: ETRD, TW

SUBJECT: COTTON CONTRACT PROBLEM

REFERENCES: (A) TAIPEI 00021

(B) TAIPEI 7376

(C) TAIPEI 6843

1. LONG-AWAITED GROC PROGRAM OF FINANCIAL ASSISTANCE TO TEXTILE INDUSTRY (REFTEL A) IS EXTREMELY DISAPPOINTING. MEASURES TAKEN PROVIDE NEITHER STRONG ECONOMIC INCENTIVES NOR ADMINISTRATIVE MUSCLE NECESSARY TO INSURE THAT TAIWAN MILLS OPEN LETTERS OF CREDIT (L/C'S) FOR OVERDUE COTTON CONTRACTS.

2. ACCORDING TO Y.S. SUN, AGREEMENT WAS REACHED BETWEEN THE BOARD OF FOREIGN TRADE (BOFT), BANK OF TAIWAN, MINISTRY
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OF FINANCE (MOF) AND TAIWAN COTTON SPINNERS' AND WEAVERS'

ASSOCIATIONS TO RECOMMEND TO THE PREMIER THAT FUNDS RESULTING FROM THE PURCHASE OF TEXTILE INVENTORIES BY GOVERNMENT AGENCIES BE USED FOR THE PURCHASE OF CONTRACTED COTTON AND FOR DEBT SERVICING (REFTEL B). WE ARE CONCERNED THAT THE MOF HAS NOT REAFFIRMED THAT THE 22.3 MILLION DOLS. ALLOCATED FOR INVENTORY PURCHASES (REFTEL A) IS SPECIFICALLY EARMARKED FOR THIS PURPOSE.

3. FURTHERMORE, WHILE WE DO NOT EXPECT DIVULGENCE OF COMMERCIALLY SENSITIVE INFORMATION, I.E. THE CAPITAL POSITIONS OF INDIVIDUAL MILLS, THE MOF HAS NOT SUPPLIED EVEN A ROUGH ESTIMATE OF THE FUNDS WHICH WILL BECOME AVAILABLE TO THE MILLS THROUGH PROVISION OF ADDITIONAL LINES OF CREDIT BY COMMERCIAL BANKS. MORE IMPORTANTLY, MERE AVAILABILITY AND THE PROVISION THAT A MILL CAN USE THESE FUNDS FOR "WHATEVER PURPOSE IT DEEMS MOST IMPORTANT" (REFTEL A) PROVIDE NO GUARANTEE THAT THE CREDIT WILL BE UTILIZED TO PURCHASE COTTON CONTRACTED FROM US SHIPPERS. WE DOUBT THAT MILLS WILL VOLUNTARILY USE THE AVAILABLE CREDIT TO PURCHASE COTTON THEY DO NOT WANT AND/OR CANNOT USE.

4. FINALLY, RELIEF FROM IMPORT DUTIES ON RAW COTTON IS A MARGINAL INCENTIVE, EFFECTIVE ONLY IF COUPLED WITH OTHER MEASURES PROVIDING STRONG ENCOURAGEMENT. IN THE CONTEXT OF THE REPORTED GROC PROGRAM, THE EFFECT IS LIKELY TO BE MINIMAL.

5. DESPITE ASSURANCES BY THE PREMIER THAT THE COTTON CONTRACT PROBLEM WAS RECEIVING HIS PERSONAL ATTENTION AND THAT THE GROC WOULD DO ALL IT COULD TO INSURE THAT THE CONTRACTS WERE HONORED (REFEL C), THE WEAKNESS OF THE INCENTIVES PROVIDED BY THE FINANCIAL ASSISTANCE PROGRAM LEADS US TO CONCLUDE THAT (A) REGARDLESS OF NUMEROUS AND HIGH-LEVEL USG REPRESENTATIONS, THE GROC DOES NOT VIEW THE PROBLEM WITH SUFFICIENT SERIOUSNESS AND/OR (B) THE LACK OF TEETH IN THE PROGRAM IS A TACTIC TO PERSUADE US TO ACCEDE TO THE GROC REQUEST FOR CCC CREDIT AND/OR TO PERSUADE THE US COTTON SHIPPERS TO RENEGOTIATE THEIR OUTSTANDING CONTRACTS.

6. WE ARE ALSO CONCERNED THAT THIS MAY BE STILL ANOTHER DELAYING TACTIC. IN ADDITION, IT WOULD TIE UP 50 MILLION

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DOLLARS OF CCC CREDIT DURING A PERIOD WHEN CREDITS ARE STRICTLY LIMITED.

7. REQUEST AMBASSADOR APPROACH MINISTER OF ECONOMIC AFFAIRS Y.S. SUN AND, DRAWING ON POINTS MADE IN PARAGRAPH 2, 3, AND 4 ABOVE, EXPRESS THE CONCERN OF THE USG THAT THE FINANCIAL MEASURES TAKEN PROVIDE LITTLE INCENTIVE FOR TAIWAN MILLS TO OPEN L/C'S FOR CONTRACTED COTTON. SUN SHOULD BE INFORMED

THAT FURTHER ACTIONS TO RESOLVE THE PROBLEM ARE BEING CON-
SIDERED BY THE USG AT HIGH LEVELS. GROC INTEREST IN CCC
CREDIT WILL BE CONSIDERED ALONG WITH OTHER MEASURES. HOWEVER,
WE NEED ASSURANCES FROM SUN THAT 50 MILLION CCC CREDIT IN
CONJUNCTION WITH GROC FINANCIAL ASSISTANCE PROGRAM WILL BE
SUFFICIENT TO PERSUADE MILLS TO HONOR CONTRACTS WITHOUT
DELAY. IN ABSENCE OF SUCH ASSURANCES, WE MUST ASSUME CCC
CREDITS WOULD NOT BE SUFFICIENT TO SOLVE OUR PROBLEM.
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